

**REPORT OF THE AUDIT OF THE
CARLISLE COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

April 23, 2004



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE 502.573.0050
FACSIMILE 502.573.0067**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable John Roberts, Carlisle County Judge/Executive
Honorable Steve McChristian, Carlisle County Sheriff
Members of the Carlisle County Fiscal Court

The enclosed report prepared by Percy and Gray, PSC, Certified Public Accountants, presents the Carlisle County Sheriff's Settlement - 2003 Taxes as of April 23, 2004.

We engaged Percy and Gray, PSC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Percy and Gray, PSC evaluated the Carlisle County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
CARLISLE COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

April 23, 2004

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
CARLISLE COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

April 23, 2004

Peercy and Gray, PSC has completed the audit of the Sheriff's Settlement - 2003 Taxes for Carlisle County Sheriff as of April 23, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$1,113,555 for the districts for 2003 taxes, retaining commissions of \$46,657 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,035,840 to the districts for 2003 taxes. Taxes of \$30,885 are due to the districts from the Sheriff.

Report Comments:

- The Records For Franchise Taxes Were Not Complete In Accordance With KRS 134.160
- The Sheriff Did Not Publish The Tax Settlement Within Sixty Days After The Close Of The Tax Year In Accordance With KRS 424.220 (6)
- The Sheriff Should Distribute Interest Earned On Tax Account To The School And Fee Account On A Monthly Basis
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$141,843 To Protect Deposits
- Lacks Adequate Segregation Of Duties

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Kevin P. Peercy, CPA

Linda Gray, CPA



To the People of Kentucky
Honorable Ernie Fletcher, Governor
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Honorable Steve McChristian, Carlisle County Sheriff
Members of the Carlisle County Fiscal Court

Independent Auditor's Report

We have audited the Carlisle County Sheriff's Settlement - 2003 Taxes as of April 23, 2004. This tax settlement is the responsibility of the Carlisle County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Carlisle County Sheriff's taxes charged, credited, and paid as of April 23, 2004, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 24, 2004, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable John Roberts, Carlisle County Judge/Executive
Honorable Steve McChristian, Carlisle County Sheriff
Members of the Carlisle County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Records For Franchise Taxes Were Not Complete In Accordance With KRS 134.160
- The Sheriff Did Not Publish The Tax Settlement Within Sixty Days After The Close Of The Tax Year In Accordance With KRS 424.220 (6)
- The Sheriff Should Distribute Interest Earned On Tax Account To The School And Fee Account On A Monthly Basis
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$141,843 To Protect Deposits
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Percy and Gray, PSC".

Percy and Gray, PSC

Audit fieldwork completed -
November 24, 2004

CARLISLE COUNTY
STEVE MCCHRISTIAN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES

April 23, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 144,351	\$ 187,327	\$ 369,142	\$ 146,555
Tangible Personal Property	8,382	10,443	21,462	15,869
Intangible Personal Property				12,242
Fire Protection	891			
Franchise Corporation	56,898	72,348	145,721	
Clay Reserve Taxes	59	74	153	60
Penalties	1,233	1,563	3,147	1,383
Partial Payments on Prior Year Taxes	54	64	138	197
Adjusted to Sheriff's Receipt	94	118	227	131
	<hr/>	<hr/>	<hr/>	<hr/>
Gross Chargeable to Sheriff	\$ 211,962	\$ 271,937	\$ 539,990	\$ 176,437
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Credits</u>				
Exonerations	\$ 1,004	\$ 1,245	\$ 2,569	\$ 1,020
Discounts	1,942	2,521	4,928	2,227
Delinquents:				
Real Estate	3,477	4,315	8,892	3,530
Tangible Personal Property	69	218	447	278
Uncollected Franchise	10,022	12,435	25,632	
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Total Credits	\$ 16,514	\$ 20,734	\$ 42,468	\$ 7,055
	<hr/>	<hr/>	<hr/>	<hr/>
Taxes Collected	\$ 195,448	\$ 251,203	\$ 497,522	\$ 169,382
Less: Commissions *	8,594	10,676	19,901	7,486
	<hr/>	<hr/>	<hr/>	<hr/>
Taxes Due	\$ 186,854	\$ 240,527	\$ 477,621	\$ 161,896
Taxes Paid	184,040	237,170	452,969	161,661
Refunds (Current and Prior Year)	30	37	76	30
	<hr/>	<hr/>	<hr/>	<hr/>
Due Districts as of		**		
Completion of Fieldwork	\$ 2,784	\$ 3,320	\$ 24,576	\$ 205
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* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

CARLISLE COUNTY
STEVE MCCHRISTIAN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES
April 23, 2004
(Continued)

* Commissions:

10% on	\$ 10,000
4.25% on	\$ 606,034
4% on	\$ 497,521

** Special Taxing Districts:

Health District	\$ 654
Extension District	1,257
Soil Conservation District	90
Ambulance District	1,095
Watershed District	<u>224</u>

Due Districts	<u><u>\$ 3,320</u></u>
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CARLISLE COUNTY
NOTES TO FINANCIAL STATEMENT

April 23, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 11, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$141,843 of public funds uninsured and unsecured.

CARLISLE COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 23, 2004
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 11, 2003.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	353,483
Uncollateralized and uninsured	<u>141,843</u>
Total	<u>\$ 595,326</u>

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 8, 2003 through April 23, 2004

B. Clay Reserve Taxes

The tangible property tax assessments were levied as of January 1, 2003. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 10, 2003 through February 20, 2004.

Note 4. Interest Income

The Carlisle County Sheriff earned \$397 as interest income on 2003 taxes. The Sheriff did not distribute the appropriate amount to the school district or the fee account as required by statute. As of November 24, 2004, the Sheriff owes \$170 in interest to the school district and \$227 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Carlisle County Sheriff collected \$5,638 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of November 24, 2004, the Sheriff owes \$1,428 in 10% add-on fees to his fee account.

CARLISLE COUNTY
NOTES TO FINANCIAL STATEMENT
April 23, 2004
(Continued)

Note 6. Advertising Costs And Fees

The Carlisle County Sheriff collected \$835 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The advertising fees will be used to operate the Sheriff's office. As of November 24, 2004, the Sheriff owes \$490 in advertising fees to his fee account.

Note 7. Unexplained Receipts Should Be Escrowed

The Sheriff has attempted to return overpayments to taxpayers. According to KRS 393.090, effective through June 23, 2003, property is presumed abandoned after seven years, after which time it is to be turned over to the Kentucky State Treasurer. After KRS 393.090 was amended, effective June 24, 2003, property is presumed abandoned after three years, after which time it is to be turned over to the Kentucky State Treasurer, in accordance with KRS 393.110.

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COMMENTS AND RECOMMENDATIONS

CARLISLE COUNTY
STEVE MCCHRISTIAN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of April 23, 2004

STATE LAWS AND REGULATIONS:

The Records For Franchise Taxes Were Not Complete In Accordance With KRS 134.160

KRS 134.160 requires the Sheriff maintain accurate records of all moneys received by him. The records for the franchise taxes were not complete. Reports were not made every month for the paid bills. In most cases, several months would elapse before a reporting of the collection was made. On several occasions, this procrastination caused bills to be left off of the reports causing a balance in the account of \$30,824 as of April 23, 2004.

We recommend that the franchise tax collected be reported on a monthly basis and all liabilities owed be paid on a monthly basis. To close the account, we recommend the Sheriff Transfer \$30,824 to the Property Tax Account

Sheriff's Response:

None.

The Sheriff Did Not Publish The Tax Settlement Within Sixty Days After The Close Of The Calendar Year In Accordance With KRS 424.220 (6)

KRS 424.220 (6) requires the publication of the tax settlement within sixty (60) days of the close of the tax year. The settlement was never published. We recommend the Sheriff publish the annual settlement within sixty days of the close of the tax year.

Sheriff's Response:

None.

The Sheriff Should Distribute Interest Earned On Tax Account To The School And Fee Account On A Monthly Basis In Accordance With KRS 134.140 (3)(b)

KRS 134.140 (3)(b) requires the Sheriff to distribute the interest earned on the tax account to the school district and fee account in proportion of taxes collected on a monthly basis. The Sheriff failed to distribute any interest earned through the year. We recommend that the Sheriff distribute interest earned on the tax account in accordance with KRS 134.140 (3)(b).

Sheriff's Response:

None.

CARLISLE COUNTY
STEVE MCCHRISTIAN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of April 23, 2004
(Continued)

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$141,843 To Protect Deposits

On December 11, 2003, \$141,843 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

None.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

Lacks Adequate Segregation of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing and adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness (1) the Sheriff should periodically compare the daily bank deposit to the daily collection report and then compare the daily checkout sheet to the receipts ledger and daily checkout sheet. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger, (2) the Sheriff should compare the monthly tax reports to receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the monthly tax reports, and (3) the Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response:

None.

PRIOR YEAR:

The prior year report did not contain any comments or recommendations.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Kevin P. Peercy, CPA

Linda Gray, CPA



The Honorable John Roberts, Carlisle County Judge/Executive
The Honorable Steve McChristian, Carlisle County Sheriff
Members of the Carlisle County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Carlisle County Sheriff's Settlement - 2003 Taxes as of April 23, 2004, and have issued our report thereon dated November 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Carlisle County Sheriff's Settlement - 2003 Taxes as of April 23, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Records For Franchise Taxes Were Not Complete In Accordance With KRS 41.240
- The Sheriff Did Not Publish The Tax Settlement Within Sixty Days After The Close Of The Tax Year In Accordance With KRS 424.220 (6)
- The Sheriff Should Distribute Interest Earned On Tax Account To The School And Fee Account On A Monthly Basis
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$141,843 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Carlisle County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Peercy and Gray, PSC".

Peercy and Gray, PSC

Audit fieldwork completed -
November 24, 2004

